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## CABINET AFFAIRS STAFFING MEMORANDUM

Date: 6/8/84 Number: 169004CA Due By: \_\_\_\_\_

Subject: Cabinet Council on Economic Affairs - Tuesday, June 12, 1984  
8:45 a.m. - Roosevelt Room TOPIC: Rpt of Working Group on  
Financial Institution Reform

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Simmons	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
			CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>

## REMARKS:

The Cabinet Council on Economic Affairs will meet on Tuesday, June 12, 1984 at 8:45 a.m. in the Roosevelt Room.

The agenda and background paper are attached.

## RETURN TO:

☐ Craig L. Fuller  
 Assistant to the President  
 for Cabinet Affairs  
 456-2823

☐ Katherine Anderson  
☒ Tom Gibson

☐ Don Clarey  
☐ Larry Herbolzheimer

Associate Director  
 Office of Cabinet Affairs  
 456-2800

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 REG  
 L-300B

THE WHITE HOUSE

WASHINGTON

June 8, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and Paper for the June 12 Meeting

The agenda and paper for the June 12 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will consider financial institution reform legislation, its current status in the Congress, and the position the Administration should articulate on the St. Germain-Wylie "Financial Institutions Equity Act."

Thomas Healey, Assistant Secretary of the Treasury for Domestic Finance and chairman of the Working Group on Financial Institution Reform, has prepared the attached memorandum on the St. Germain-Wylie bill. The memorandum briefly summarizes the major provisions in the legislation and outlines the approach Secretary Regan intends to take in testifying on this bill.

**THE WHITE HOUSE**

WASHINGTON

**CABINET COUNCIL ON ECONOMIC AFFAIRS**

June 12, 1984

8:45 a.m.

Roosevelt Room

**AGENDA**

1. Report of the Working Group on Financial Institution  
Reform: St. Germain-Wylie (CM # 149)



## DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

June 8, 1984

## MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Thomas J. Healey

SUBJECT: St Germain-Wylie "Financial Institutions Equity Act"

Chairman St Germain of the House Banking Committee recently introduced the "Financial Institutions Equity Act" (H.R. 5734). The bill was cosponsored by Rep. Chalmers Wylie, the Committee's ranking minority member, and 18 other members of the House. The bill is designed to close the "nonbank bank" loophole and to reregulate by delineating new lines between banking and other financial services. A brief summary of the major provisions of the bill is attached to this memorandum.

The Administration will be given an opportunity to articulate a response to this bill when Secretary Regan testifies before the House Banking Committee, which may occur as early as June 14. The Secretary intends to advance three primary reasons as to why reform legislation should focus on an expansion of depository institution holding company powers rather than a separation of banking from other financial services.

First, expansion of powers will strengthen the banking system and enhance the safety and soundness of depository institutions. New powers will provide holding companies with a revenue stream that will make them stronger financial institutions and thus better able to support their subsidiary banks. New powers will also enable holding companies to diversify, thereby limiting risk, and to compete for customers on an equal basis with less regulated firms.

Second, the holding company requirement and other restrictions in the Administration's proposal not only protect against abusive practices but also preserve the safety of banks and thrifts by providing important safeguards against undue risk. The holding company structure insulates depository institutions from activities of a non-traditional nature that were not intended to benefit from government protection. It also fosters competitive equity by ensuring that banks and thrifts do not use their lower cost funds to engage directly in activities with non-depository

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institution competitors. Finally, the holding company approach enhances the effectiveness of regulation by permitting equivalent regulation of functionally equivalent activities. In addition, the Garn bill, which the Administration supports, outlines various restrictions on tying of products and interaffiliate transactions that are targeted to prevent possible abuses that may arise from product deregulation.

Third, the regressive approach adopted by the St Germain-Wylie bill essentially turns back the clock on the financial services industry. This legislation simply ignores recent technological advances, the demands of today's sophisticated consumers, and the realities of the marketplace. Furthermore, the bill's divestiture requirement is inherently unfair to firms that made strategic planning decisions based on existing law. An absolute prohibition against offering new financial services simply cannot be justified when there are overriding benefits to be gained and the risks of abuse can be managed adequately by regulation.

In conclusion, the only appropriate public policy choice is for Congress to enact legislation that will respond to the realities of the marketplace and that establishes a structure which preserves the safety and soundness of our depository institutions while fostering competition. Thus, we support the Garn bill, which incorporates the Administration's FIDA proposal as it was approved by the Cabinet Council last year, and we oppose the St Germain proposal.

Attachment

Summary of Major Provisions of St Germain-Wylie  
"Financial Institutions Equity Act"

1. Closes the nonbank bank loophole.
2. Prohibits banks and their holding company affiliates, and thrifts and their holding company affiliates, from engaging in "tandem" operations (that is, from marketing each others' products and services) unless approved by the Fed or the FSLIC, respectively.
3. Extends the Glass-Steagall Act's prohibitions to all banks and thrifts, regardless of Fed membership or Federally insured status, and parents and subsidiaries of both.
4. Prohibits depository institutions and their affiliates from offering discount brokerage.
5. Limits state-chartered banks and state-chartered thrifts to activities permitted under the Bank Holding Company Act and the S&L Holding Company Act, respectively. The sole exception is for activities conducted only in the institution's state of charter and for residents of that state.
6. Defines a "qualified thrift lender" as a thrift with 65% of its assets in home mortgages or related investments. Holding companies with a thrift that is not a qualified thrift lender or that engage in "tandem operations" (See No. 2 above) with an S&L subsidiary lose their right to engage in unlimited activities.
7. Prohibits commercial lending by thrifts (even qualified thrift lenders) if their holding companies engage in activities not permitted to multiple S&L holding companies, and prohibits commercial lending by a thrift that is not a qualified thrift lender.

The bill also extends the S&L Holding Company Act to state-insured thrifts and contains a generous phase-in period for savings banks to meet the qualified thrift lender test.

The bill contains no grandfathering rights, although it generally allows a two-year period for institutions to come into compliance.